

INDEPENDENT AUDITORS' COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATIONS

Accounting Records

We found the records of the City to be generally well maintained and adequate to meet the City's needs.

Internal Accounting Control

See letter "Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards."

Debt Limitation

The City did not exceed its debt limitation during the year ended June 30, 2004.

Budget Compliance

We reviewed the budgets for 2003-2004 and 2004-2005 and the procedures used in their preparation, adoption, and execution. The budgets were prepared, adopted, and executed substantially in compliance with the Local Budget Law.

Insurance and Fidelity Bond Coverage

We examined the insurance policies and fidelity bonds relating to City coverage. We ascertained that such policies were in force at June 30, 2004. We are not competent by training to state whether the insurance coverage in force at June 30, 2004, is adequate.

Programs Funded by Outside Sources

Programs funded by the federal government were not tested in conformity with requirements of OMB Circular A-133 as the amount of expenditures under such programs was below the amount required for audit of such program expenditures.

Highway Funds

The City appears to have complied with legal requirements pertaining to the use of revenue from taxes on motor use fuel.

Accountability of Funds

No elected officials of the City were entrusted with funds.

Collateralization of Public Funds

We reviewed the City's compliance with legal provisions regarding collateralization of public funds on deposit with depositories. Cash on deposit met the minimum collateral requirements throughout the year ended June 30, 2004.

Public Contracts and Purchasing

We reviewed and tested, to the extent deemed necessary, the City's adherence to legal requirements regarding awarding of public contracts and found that legal provisions were complied with.



John T. Fisher, CPA, CGFM
Member of the Firm
LeMaster & Daniels PLLC
Yakima, Washington
October 15, 2004

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Honorable Mayor, Members of the
City Council and City Manager
City of Milton-Freewater
Milton-Freewater, Oregon.

We have audited the financial statements of the City of Milton-Freewater, Oregon, as of and for the year ended June 30, 2004, and have issued our report thereon dated October 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Milton-Freewater, Oregon's, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Milton-Freewater, Oregon's, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Mayor, Members of the City Council, the City Manager, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Yakima, Washington
October 15, 2004